



*Photograph by Ray K. Saunders.*

# MEDICAID PLANS POST FASTEST GROWTH IN CORE EXPENSES SINCE 2014

*SHERLOCK BENCHMARKS*

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October 17, 2018



SHERLOCK COMPANY

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## TOPICS

- Background on Medicaid
- Long term cost trends
- Changes in cluster costs
- Reasons for cost increases
- Costs by Cluster: Percent and PMPM
- Costs by Product: Percent and PMPM

## APPENDICES

- Last year's values
- Functions in each cluster of expenses
- About the Sherlock Benchmarks

*Racing workboats is our metaphor for businesses striving for performance improvement.*



# BACKGROUND ON MEDICAID GROWTH UNDER ACA

**Figure 2. Sherlock Benchmark Summary**

Health Insurance Coverage in the United States: Census Bureau  
(000's)

	2013		2014		2015		2016		2017		2017 Change	Percent Change	Cml. Change	Percent Change
Any Health Plan	271,606	86.7%	283,200	89.6%	289,903	90.9%	292,320	91.2%	294,613	91.2%	2,293	0.8%	23,007	8.5%
Any Private Plan	201,038	64.1%	208,700	66.0%	214,238	67.2%	216,203	67.5%	217,007	67.2%	804	0.4%	15,969	7.9%
Employment-based	174,418	55.7%	175,027	55.4%	177,540	55.7%	178,455	55.7%	181,036	56.0%	2,581	1.4%	6,618	3.8%
Direct purchase	35,755	11.4%	46,165	14.6%	52,057	16.3%	51,961	16.2%	51,821	16.0%	-140	-0.3%	16,066	44.9%
Any Government Plan	108,287	34.6%	115,470	36.5%	118,395	37.1%	119,361	37.3%	121,965	37.7%	2,604	2.2%	13,678	12.6%
Medicare	49,020	15.6%	50,546	16.0%	51,875	16.3%	53,372	16.7%	55,623	17.2%	2,251	4.2%	6,603	13.5%
Medicaid	54,919	17.5%	61,650	19.5%	62,384	19.6%	62,303	19.4%	62,492	19.3%	189	0.3%	7,573	13.8%
Military health care	14,016	4.5%	14,143	4.5%	14,849	4.7%	14,638	4.6%	15,532	4.8%	894	6.1%	1,516	10.8%
Uninsured	41,795	13.3%	32,968	10.4%	28,966	9.1%	28,052	8.8%	28,543	8.8%	491	1.8%	-13,252	-31.7%
<b>Total</b>	313,401		316,168		318,869		320,372		323,156		2,784	0.9%	9,755	3.1%

Source: Health Insurance Coverage in the United States: 2017, <https://www.census.gov/content/dam/Census/library/publications/2018/demo/p60-264.pdf>

Note: According to the analysis "Individuals are considered to be uninsured if they did not have health insurance coverage at any point during the calendar year."  
and "The estimates by type of coverage are not mutually exclusive; people can be covered by more than one type of health insurance during the year."



# BACKGROUND ON MEDICAID GROWTH UNDER ACA

**Figure 3. Sherlock Benchmark Summary**

Source of Insurance Coverage: Gallup

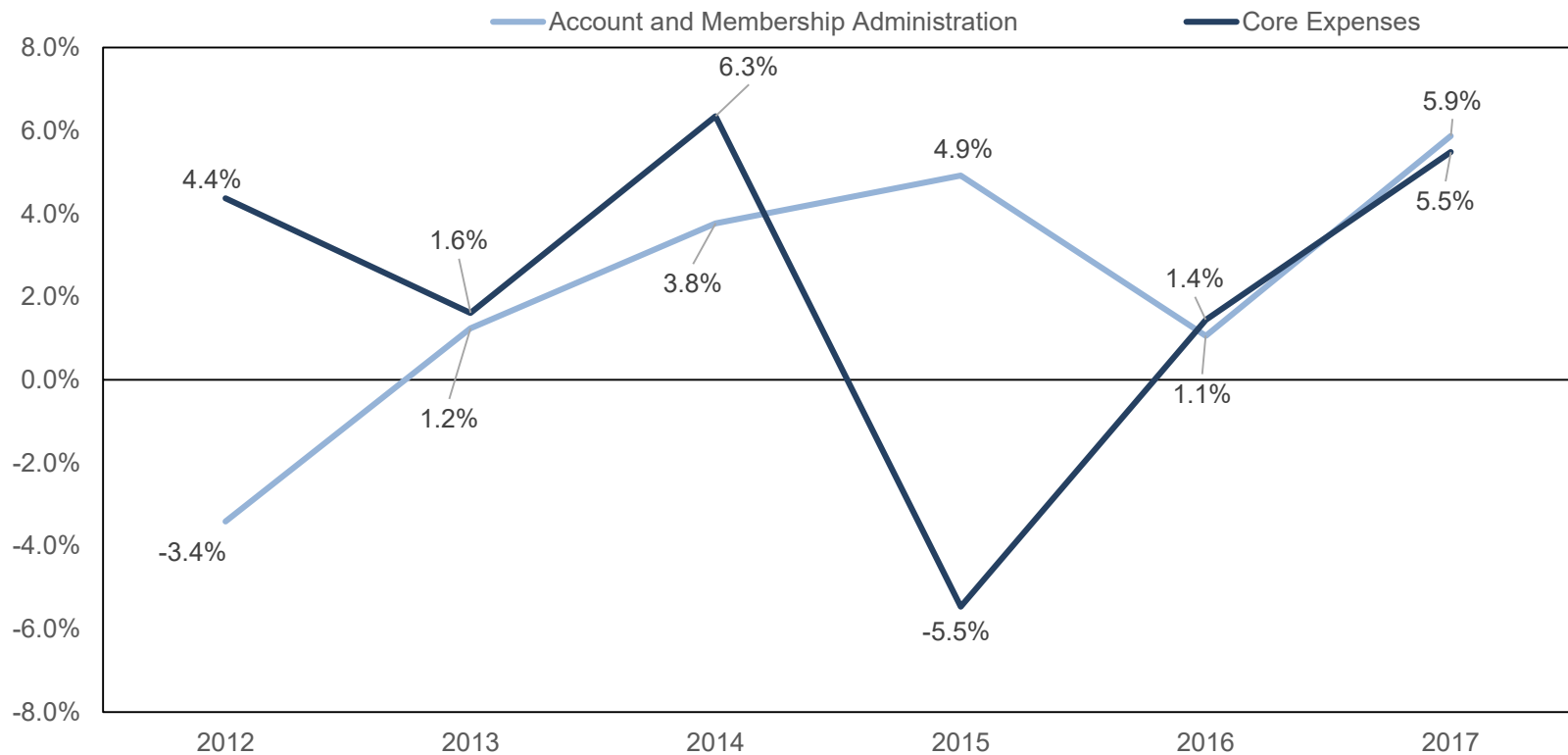
	Q2 2013	Q4 2013	Q2 2016	Q4 2016	Q2 2017	Q4 2017	Fourth Quarter	
							'16 - '17 Pct. Change	'13 - '17 Pct. Change
Current or Former Employer	44.4%	44.2%	43.5%	44.3%	43.8%	43.7%	-0.6%	-0.5%
Plan Fully Paid for by Self or Family Member	16.7%	17.6%	21.8%	21.3%	20.6%	20.3%	-1.0%	2.7%
Medicaid	6.8%	6.9%	9.6%	8.8%	9.2%	8.8%	0.0%	1.9%
Medicare	6.4%	6.1%	7.4%	7.6%	7.3%	7.5%	-0.1%	1.4%
Military / Veterans	4.3%	4.6%	4.9%	4.7%	4.7%	4.3%	-0.4%	-0.3%
A Union	2.8%	2.5%	2.5%	2.7%	2.4%	2.9%	0.2%	0.4%
(Something Else)	3.8%	3.5%	4.3%	4.6%	4.6%	4.5%	-0.1%	1.0%
No Insurance	21.2%	20.8%	13.3%	13.1%	14.2%	14.8%	1.7%	-6.0%



# GROWTH FOR CORE AND ACCOUNT AND MEMBERSHIP ADMINISTRATION BOTH ACCELERATED FROM LAST YEAR.

**Figure 1. Sherlock Benchmark Summary**

Medicaid Plans Rates of Change for Account and Membership Administration and Core, Constant Mix



*Medians. Rates of change hold universe and product mix constant.*



# AMONG CONTINUOUSLY PARTICIPATING PLANS, OVERALL ACCELERATION, ESPECIALLY WHEN MIX HELD CONSTANT.

**Figure 4. Sherlock Benchmark Summary**

Medicaid Plans' Median Changes in Per Member Per Month Expenses

Functional Area	2016 Data		2017 Data	
	As Reported	Constant Mix	As Reported	Constant Mix
Medical and Provider Management	2.5%	-2.1%	6.8%	5.7%
Account and Membership Administration	1.0%	1.1%	8.6%	5.9%
Corporate Services	4.8%	2.1%	11.8%	12.0%
<b>Subtotal: Core Expenses</b>	3.9%	1.4%	7.1%	5.5%
Sales and Marketing	-0.3%	0.9%	5.0%	5.2%
<b>Total Expenses</b>	4.0%	2.7%	5.1%	4.8%

*Constant-Mix adjusts to exclude product-mix differences.*



# SOURCES OF “REAL” GROWTH IN ADMINISTRATIVE EXPENSES FOR MEDICAID PLANS IN 2017

	Chg.	Greatest Change	Highest Weight
Med & Provider	5.7%	Provider Net. Mgmt & Svcs ↑	Medical Mgmt ↑
Acct & Memb	5.9%	Customer Svcs ↑	Information Systems ↑
Corp. Serv.	12.0%	Actuarial ↑	Corporate Svcs Function ↑
Core	5.5%	Actuarial ↑	Corporate Svcs Function ↑
Sales & Mkt.	5.2%	Rating and Underwriting ↑	Rating and Underwriting ↑
Total	4.8%	Actuarial ↑	Corporate Svcs Function ↑



# SOURCES OF REPORTED GROWTH IN ADMINISTRATIVE EXPENSES FOR MEDICAID PLANS IN 2017

	Chg.	Greatest Change	Highest Weight
Med & Provider	6.8%	Provider Net. Mgmt & Svcs ↑	Provider Net. Mgmt & Svcs ↑
Acct & Memb	8.6%	Information Systems ↑	Information Systems ↑
Corp. Serv.	11.8%	Corporate Exec. & Gov. ↑	Corporate Svcs Function ↑
Core	7.1%	Corporate Exec. & Gov. ↑	Information Systems ↑
Sales & Mkt.	5.0%	Rating and Underwriting ↑	Rating and Underwriting ↑
Total	5.1%	Corporate Exec. & Gov. ↑	Information Systems ↑





COMPARED WITH VALUES IN APPENDIX A,  
CORE COSTS WERE 2.5% LOWER IN 2017. COST  
TRENDS, CHANGES IN THE PRODUCT MIX AND  
THE UNIVERSE WERE RESPONSIBLE.

**Figure 5. Sherlock Benchmark Summary**

Medicaid Plans' Costs by Functional Area Cluster, 2017 Results

*Per Member Per Month*

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>	<b>2016 Values</b> <b>Median</b>
Medical and Provider Management	\$6.27	\$7.13	\$8.00	22%	\$7.32
Account and Membership Administration	10.82	16.35	17.01	31%	15.30
Corporate Services	5.41	6.75	7.47	25%	6.17
<b>Subtotal: Core Expenses</b>	<b>\$27.46</b>	<b>\$28.82</b>	<b>\$31.22</b>	<b>21%</b>	<b>\$29.56</b>
Sales and Marketing	\$7.12	\$7.69	\$10.65	45%	\$7.65
<b>Total Expenses</b>	<b>\$32.57</b>	<b>\$38.35</b>	<b>\$39.71</b>	<b>19%</b>	<b>\$36.26</b>



# PMPMs VARY BY PRODUCTS.

**Figure 6. Sherlock Benchmark Summary**  
 Medicaid Plans' Costs by Product, 2017 Results  
 Per Member Per Month

<b>Product</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
Medicaid Total	\$24.88	\$26.93	\$33.31	49%
HMO	\$24.88	\$27.13	\$33.63	50%
CHIP	\$21.25	\$26.24	\$46.43	62%
Medicare	\$79.75	\$100.34	\$120.79	135%
Advantage	\$83.23	\$96.85	\$109.43	25%
SNP	\$174.72	\$215.95	\$281.81	93%
Cost	\$57.70	\$57.71	\$57.72	0%
Medicare Supplement	\$37.46	\$55.52	\$72.88	44%
Commercial Insured Total	\$35.48	\$38.85	\$47.53	22%
HMO	\$36.96	\$42.21	\$48.63	18%
POS	\$32.16	\$41.45	\$43.37	32%
Indemnity & PPO	\$34.78	\$51.61	\$56.02	34%
Commercial ASO	\$18.62	\$20.98	\$21.87	17%
<b>Comprehensive Total</b>	\$32.57	\$38.35	\$39.71	19%
<i>Note: Core Expenses of Medicaid</i>				
Medicaid Total	\$23.06	\$25.48	\$30.02	44%
HMO	\$23.06	\$25.69	\$30.32	44%
CHIP	\$19.53	\$20.18	\$44.59	59%



# PERCENTS CAN BE ORDERED DIFFERENTLY FROM PMPMs.

**Figure 7. Sherlock Benchmark Summary**  
Medicaid Plans' Costs by Product, 2017 Results  
*Percent of Premium Equivalents*

<b>Product</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
Medicaid Total	6.4%	7.1%	9.2%	34%
HMO	6.4%	7.1%	9.0%	33%
CHIP	8.7%	11.3%	19.8%	46%
Medicare	9.5%	10.9%	12.5%	58%
Advantage	8.6%	10.1%	11.4%	29%
SNP	9.5%	11.4%	14.7%	69%
Cost	13.3%	13.4%	13.6%	4%
Medicare Supplement	12.3%	22.3%	30.9%	49%
Commercial Insured Total	9.0%	9.7%	10.9%	23%
HMO	9.2%	10.0%	10.9%	24%
POS	4.4%	6.4%	9.7%	49%
Indemnity & PPO	8.4%	10.3%	10.9%	25%
Commercial ASO	4.7%	5.3%	6.6%	25%
<b>Comprehensive Total</b>	7.6%	8.4%	9.2%	15%
<i>Note: Core Expenses of Medicaid</i>				
Medicaid Total	5.8%	6.2%	8.5%	34%
HMO	5.8%	6.2%	8.5%	33%
CHIP	8.0%	8.7%	14.5%	34%



# CORE ADMINISTRATIVE EXPENSES WERE 6.6% OF PREMIUMS, 0.2 PERCENTAGE POINTS LOWER THAN LAST YEAR.

**Figure 8. Sherlock Benchmark Summary**

Medicaid Plans' Costs by Functional Area Cluster, 2017 Results  
*Percent of Premium Equivalents*

*2016  
Values*

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>	<b>Median</b>
Medical and Provider Management	1.4%	1.6%	1.7%	27%	1.6%
Account and Membership Administration	2.5%	3.5%	4.1%	27%	3.7%
Corporate Services	1.3%	1.5%	1.7%	21%	1.5%
<b>Subtotal: Core Expenses</b>	5.9%	6.6%	7.4%	18%	6.8%
Sales and Marketing	1.6%	2.0%	2.5%	42%	1.9%
<b>Total Expenses</b>	7.6%	8.4%	9.2%	15%	8.4%



# COMPARISONS WITH BLUE AND IPS UNIVERSES

**Figure 9. Sherlock Benchmark Summary**

Medicaid HMO Product Characteristics by Universe, 2017 Results

	Medicaid	IPS	Blue	Combined
<b>Core Costs</b>				
<i>Per Member Per Month</i>				
25th Percentile	\$23.06	\$17.70	\$47.20	\$19.82
Median	25.69	18.50	54.04	25.44
75th Percentile	30.32	19.31	60.88	31.37
Coefficient of Variation	44%	6%	36%	51%
<i>Percent of Premiums and Equivalentents</i>				
25th Percentile	5.8%	6.4%	10.7%	6.0%
Median	6.2%	6.7%	12.7%	6.6%
75th Percentile	8.5%	7.9%	14.7%	10.0%
Coefficient of Variation	33%	29%	45%	39%
<b>Total Costs</b>				
<i>Per Member Per Month</i>				
25th Percentile	\$24.88	\$19.53	\$50.11	\$22.00
Median	27.13	20.02	57.00	26.52
75th Percentile	33.63	20.78	63.89	36.92
Coefficient of Variation	50%	8%	34%	53%
<i>Percent of Premiums and Equivalentents</i>				
25th Percentile	6.4%	6.6%	10.8%	6.6%
Median	7.1%	7.2%	12.3%	7.2%
75th Percentile	9.0%	9.0%	13.8%	10.5%
Coefficient of Variation	33%	34%	35%	35%
Plans Offering Medicaid	12	4	2	18
Medicaid HMO Members (millions)	3.96	0.31	0.68	4.95
Comprehensive Total Members (millions)	9.12	2.46	16.50	28.07



# MEDICAID ADMINISTRATIVE COSTS ACCELERATE IN 2017



*Photograph by Ray K. Saunders.*

- Core Costs were \$28.82 versus \$29.56 last year. Total costs were higher by 5.8% to a median of \$38.35. Actual performance, differences in universe and mix changes were responsible.
- Growth in Core expenses, 2<sup>nd</sup> fastest since 2014. As-reported increased by 7.1%, constant mix grew by 5.5%, both accelerated from last year.
- The rate of growth in all clusters accelerated, including Sales and Marketing.
- Actuarial, Corporate Services function, Customer Services, and Provider Network Management were notably fast growing core functions. Rating and Underwriting increased the most under Sales and Marketing cluster.
- Important sources of growth include Corporate Services Function and Information Systems.
- Staffing ratios increased to 26 FTEs per 10,000 members. Core Compensation grew modestly to \$95,000 per FTE and 20% of Core FTEs were outsourced.



# APPENDIX A. MEDICAID PLANS ADMINISTRATIVE COSTS IN 2016

## Appendix A. Sherlock Benchmark Summary

Medicaid Plans' Costs by Functional Area Cluster, 2016 Results

*Per Member Per Month*

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
Medical and Provider Management	\$6.04	\$7.32	\$7.92	25%
Account and Membership Administration	11.60	15.30	17.53	32%
Corporate Services	5.56	6.17	6.41	17%
<b>Subtotal: Core Expenses</b>	\$23.50	\$29.56	\$31.32	21%
Sales and Marketing	\$6.26	\$7.65	\$10.59	43%
<b>Total Expenses</b>	\$34.32	\$36.26	\$38.30	19%



# APPENDIX B. MEDICAID PLANS ADMINISTRATIVE COSTS IN 2016

## Appendix B. Sherlock Benchmark Summary

Medicaid Plans' Costs by Functional Area Cluster, 2016 Results

*Percent of Premium Equivalents*

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
Medical and Provider Management	1.5%	1.6%	1.7%	27%
Account and Membership Administration	3.1%	3.7%	4.1%	30%
Corporate Services	1.3%	1.5%	1.6%	23%
<b>Subtotal: Core Expenses</b>	5.9%	6.8%	7.9%	22%
Sales and Marketing	1.5%	1.9%	2.2%	34%
<b>Total Expenses</b>	7.8%	8.4%	9.5%	14.9%





## APPENDIX C. CAREFUL QUALITY ASSURANCE

- ***Voluntary*** – Since providers are users, they have stake in the metrics. Other than required metrics, scope is also voluntary.
- ***Strong definitions*** – Developed with participants. Activities and cost centers listed, supported by ongoing clarifying discussions.
- ***Highly granular*** - Ready identification of outliers, as well as drill-down capabilities.
- ***Practice effect*** – High percent of repeaters: 93% of Blue and 80% of IPS repeated from last year. 79% of Blues have seven or more years of participation, and 80% of IPS plans have five or more years of participation.
- ***Checks*** - In survey instrument and in analytical module; Anomalies investigated.
- ***Data Validation*** – Reconciled to audit. Preliminary results provided for proofing.
- ***Business model*** - No conflicts of interest; no “Tragedy of the Commons.”



# APPENDIX D. SUMMARY OF THE REPORTS AND GUIDELINES

- The **financial metrics** report analyzes costs segmented by function and by product. They are standardized by PMPMs and by Percent.
- The **staffing and compensation** report analyzes the staffing ratios, per employee compensation and propensity to outsource. We supply estimates of staffing ratios by product.
- The **operational metrics** include operational metrics unique to particular functions such as the average speed of answer in member services and the time between claim receipt and payment approved. While completion of many of these metrics is optional, you will receive the results of your universe.
- **Medical management** metrics are comprised of results for all universes. These include the costs to manage various cases and diseases. This is optional like the operational metrics.
- **Health care utilization** metrics are also comprised of results for all universes. Unit cost and volumes are provided for each product for 40 health care services and products.
- The **CFO Letter** summarizes and analyzes the financial metrics, staffing, and compensation reports. After eliminating the effect of product mix differences, variances from norms are identified and functions are ranked in order of importance. We calculate the value of the factors of staffing ratios, compensation and non-labor costs, and their relative contribution to each functional variance.
- The **Common Guidelines** provide detailed definitions of activities and calculation notes.



## APPENDIX E. STRONG NETWORK, BROAD ACCEPTANCE

- The Sherlock Benchmarks is now in 21<sup>st</sup> consecutive year, or over 818 plan years. It is the 16<sup>th</sup> consecutive year for the Medicaid universe.
- Since June of 2016, health plans serving 167 million insured Americans use the Sherlock Benchmarks, including most Blue Cross Blue Shield plans, public companies and the largest Independent/Provider-Sponsored health plans.
- Of the 14 members of the Alliance of Community Health Plans that are not focused on public programs or are staff-model plans, 8 are participating in this year's Sherlock Benchmarking Study for Independent / Provider - Sponsored health plans. 34% members served by Health Plan Alliance plans are participating in this year's Sherlock Benchmarks for Independent / Provider - Sponsored health plans. Including plans in our other universes, 41% of these plans members are reflected in the Sherlock Benchmarks.
- Of the 34 U.S.-based Blue Cross Blue Shield primary licensees, fourteen serving 37.1 million people, participated in this year's Sherlock Benchmarking Study for Blue Cross Blue Shield Plans.



# APPENDIX F. FUNCTIONS IN EACH CLUSTER

## Appendix G. Sherlock Benchmark Summary

### Major Functions Included in Each Administrative Expense Cluster

#### Sales & Marketing

- Rating and Underwriting
  - (b) Risk Adjustment
  - (c) All Other Rating and Underwriting
- Marketing
  - (a) Product Development and Market Research
  - (b) Member and Group Communication
  - (c) Other Marketing
- Sales
  - (a) Account Services
  - (b) Internal Sales Commissions
  - (c) Other Sales
- External Broker Commissions
- Advertising and Promotion
  - (a) Media and Advertising
  - (b) Charitable Contributions

#### Provider & Medical Management

- Provider Network Management and Services
  - (a) Provider Relations Services
  - (b) Provider Contracting
  - (d) Other Provider Network Management and Services
- Medical Management / Quality Assurance / Wellness
  - (a) Precertification
  - (b) Case Management
  - (c) Disease Management
  - (d) Nurse Information Line
  - (e) Health and Wellness
  - (f) Quality Components
  - (g) Medical Informatics
  - (h) Utilization Review
  - (i) Other Medical Management

#### Account & Membership Administration

- Enrollment / Membership / Billing
  - (a) Enrollment and Membership
  - (b) Billing
- Customer Services
  - (a) Member Services
  - (b) Printed Materials and Other
- Claim and Encounter Capture and Adjudication
  - (a) Coordination of Benefits (COB) and Subrogation
  - (e) Other Claim and Encounter Capture and Adjudication
- Information Systems Expenses
  - (a) Operations and Support Services
  - (b) Applications Maintenance
    - (1) Benefit Configuration
    - (2) All Other Applications Maintenance
  - (c) Applications Acquisition and Development
  - (d) Security Administration and Enforcement

#### Corporate Services

- Finance and Accounting
  - (a) Credit Card Fees
  - (b) All Other Finance and Accounting
- Actuarial
- Corporate Services Function
  - (a) Human Resources
  - (b) Legal
    - (1) Compliance
    - (2) Government Affairs
    - (3) Outside Litigation
    - (4) All Other Legal
  - (c) Facilities
  - (e) Audit
  - (f) Purchasing
  - (g) Imaging
  - (h) Printing and Mailroom
  - (i) Risk Management
  - (j) Other Corporate Services Function
- Corporate Executive and Governance
- Association Dues and License/Filing Fees

